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December 6, 1999

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

VIA HAND DELIVERY

Magalie R. Salas, Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

**Re: Notice of *Ex Parte* Presentation by the
MGC Communications, Inc.**

In the Matter of Access Charge Reform-- CC Docket No. 96-262

**In the Matter of Price Cap Performance review for Local Exchange
Carriers—CC Docket No. 94-1**

Dear Ms. Salas:

Pursuant to Sections 1.1206(b)(1) and (2) of the Commission's Rules, MGC Communications, Inc. ("MGC"), submits this notice of an oral *ex parte* presentation made, and written *ex parte* materials distributed, in the above-captioned proceedings on December 3, 1999. The *ex parte* presentation was made during a meeting with Larry Strickling; Jane Jackson; Yog Warma; and Donald Stockdale. The presentation was made by Scott Sarem, Assistant Vice President—Regulatory, MGC; Dr. August Ankum, Michael Starkey, and Peter Gose, all of QSI Consulting, and Ross Buntrock of Kelley Drye & Warren. Two versions of the written materials discussed at the meeting are being filed, a confidential version filed under seal, and a redacted version for public inspection. Confidential and proprietary information relating to MGC's costs is contained in the confidential version of the written materials.

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KELLEY DRYE & WARREN LLP

Magalie R. Salas
December 6, 1999
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During the presentations, the parties discussed switching and transport costs and the appropriate methodology to examine such costs. If you have any questions in connection with this letter, please do not hesitate to contact the undersigned.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross A. Buntrock". The signature is fluid and cursive, with the first name "Ross" being the most prominent.

Ross A. Buntrock
Scott A. Sarem

cc: Larry Strickling
Jane Jackson
Yog Warma
Donald Stockdale


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Switching Cost Study Presentation For The

 ***Federal Communications Commission***

Friday, December 3, 1999
10:00 – 11:00 a.m.



Presentation Agenda

Introductions

Economic Constructs Underlying
the CSEPT Switching Model

CSEPT Development and Architecture

Actual Model Demonstration

Question and Answer Session



Agenda Schedule

Introductions	10:00 – 10:05
Economic Constructs Underlying CSEPT	10:05 – 10:10
CSEPT Model Development and Architecture	10:10 – 10:15
Actual Model Demonstration	10:15 – 10:50
Questions and Answers	10:50 – 11:00



Presentation Agenda

- ◆ **Introductions**
- ◆ Economic Constructs Underlying the CSEPT Switching Model
- ◆ CSEPT Development and Architecture
- ◆ Actual Model Demonstration
- ◆ Question and Answer Session



MGC Personnel

- ◆ Kent Heyman

- General Counsel

- ◆ Scott Sarem

- Assistant Vice President - Regulatory



MGC Facts

- ◆ Approximately 175,000 installed loops
 - 35% residential / 65% small business
- ◆ 7 DMS 500 switches in 5 states
 - California, Nevada, Illinois, Georgia, Florida
- ◆ Approximately 300 central office collocations



MGC Consultants

◆ Dr. August “Gus” Ankum

- Senior Vice President – QSI Consulting
- Past Experience
 - Texas Public Utility Commission
 - Primary author of Texas Cost of Service Rules
 - MFS and MCI
- Ph.D. in Economics – University of Texas



MGC Consultants

◆ Michael Starkey

- President – QSI Consulting

- Past Experience

- Missouri Public Service Commission
- Illinois Commerce Commission
- Maryland Public Service Commission
 - Director – Telecommunications Division



MGC Consultants

◆ Peter Gose

- Senior Vice President – QSI Consulting

- Past Experience

- Missouri Public Service Commission

- Federal Telecommunications Analyst

- Responsible for preparing the Missouri Commission's comments to FCC NPRMs and NOIs

- Missouri PSC participant in joint audit with FCC of Southwestern Bell affiliate transactions

- Synthesized and modeled 1995 FCC USF data request for accounting and audits branch of CCB

- National Exchange Carrier Association

- Manager of Tariffs and Training

- MBA; Finance, Accounting and Economics Undergrad

QSI – ICC Relationship





Presentation Agenda

Introductions

**Economic Constructs Underlying
the CSEPT Switching Model**

CSEPT Development and Architecture

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Question and Answer Session

Economic Theory Underlying CSEPT

- ◆ TELECOMMUNICATIONS ACT OF 1996 MANDATES COST BASED RATES
- ◆ 251(D)(1) INTERCONNECTION AND NETWORK ELEMENT CHARGES.-
 - *Determination by a State commission of the just and reasonable rate for the interconnection of facilities and equipment for purposes of subsection (c)(2) of section 251, and the just and reasonable rate of network elements for purposes of subsection (c)(3) of such section –*
 - *'(A) shall be --*
 - *'(I) based on the cost (determined without reference to a rate-of-return or other rate-based proceeding) of providing the interconnection or network element (whichever is applicable), and*
 - *'(ii) nondiscriminatory, and*
 - *'(B) may include a reasonable profit.*



Economic Theory Underlying CSEPT

- ◆ FCC LOCAL COMPETITION ORDER MANDATES THAT COST STUDIES FOLLOW THE TELRIC METHODOLOGY
- ◆ *The FCC found that prices should “be based on the TSLRIC (Total Service Long Run Incremental Cost) of the network element[s], which we will call Total Element Long Run Incremental Costs (TELRIC).” (Paragraph 672)*
- ◆ TELRIC IS THE APPROPRIATE COST METHODOLOGY FOR:
 - NETWORK ELEMENTS
 - INTERCONNECTION
 - ACCESS SERVICES
 - UNIVERSAL SERVICE



TELRIC studies should employ the following costing principles:

◆ Principle # 1

- The firm should be assumed to operate in the long run.

- ◆ CSEPT models a network that is unencumbered by embedded inefficiencies.

◆ Principle # 2

- The relevant increment of output should be total company demand for the unbundled network element in question.
- ◆ CSEPT considers the total number of minutes of use over the economic life of the facilities.



TELRIC studies should employ the following costing principles:

◆ Principle # 3

- Technology choices should reflect least-cost, most efficient technologies.

- ◆ CSEPT models MGC's choice of technologies, which are state-of-the-art.

◆ Principle # 4

- Costs should be forward-looking.

- ◆ CSEPT considers growth on the network over the life of the facilities.



TELRIC studies should employ the following costing principles:

◆ Principle # 5

- Cost identification should follow cost causation.
- ◆ CSEPT models only those costs caused by switched minutes-of-use on the network. Cost associated with other services are excluded. This is true for network related costs and for common costs.

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Presentation Agenda

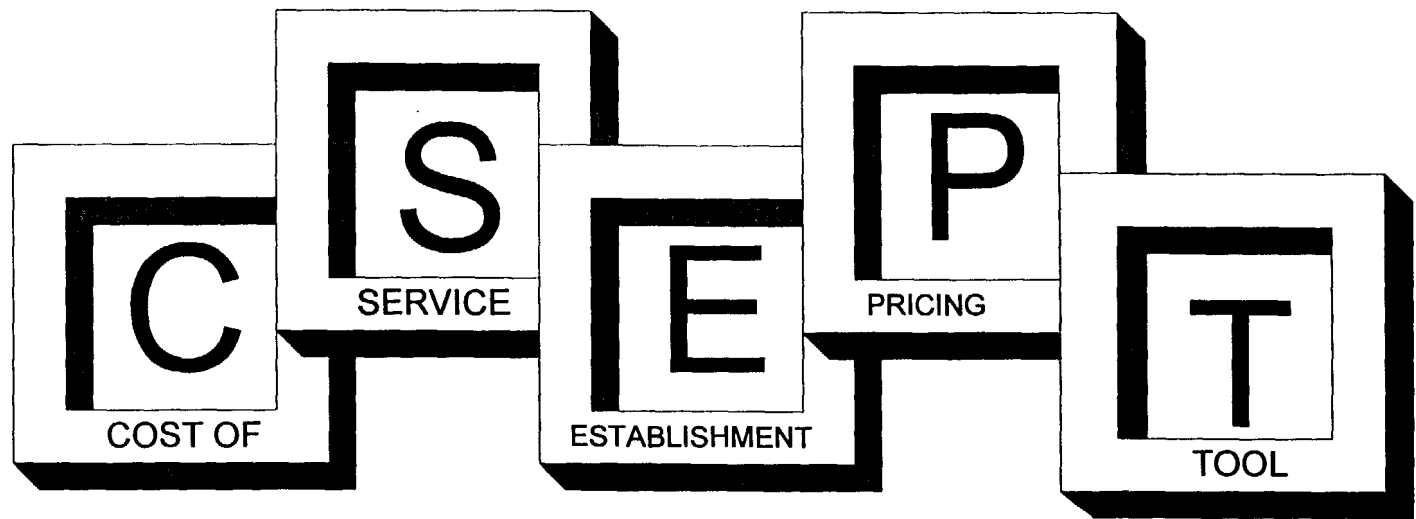
Introductions

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Cost of Service Establishment Pricing Tool (CSEPT)

MGC Communications



CSEPT Development Team

- ◆ Mike Starkey
- ◆ Gus Ankum
- ◆ Peter Gose
- ◆ Eric McPeak
- ◆ Brad Behounek



Assistance Received From:

- ◆ Kent Heyman
- ◆ Rick Heatter
- ◆ Scott Sarem
- ◆ Marilyn Ash
- ◆ Linda Sunbury
- ◆ Darin Adair
- ◆ Kim Martino
- ◆ Carrie Milan
- ◆ Mike Burke
- ◆ Walt Rusak
- ◆ Mark Sturonas
- ◆ Frank Soto - Chicago
- ◆ Willie Rabor – Pamona
- ◆ John Ryan – Nortel
- ◆ Ken Verch – Nortel



CSEPT Underpinnings

- ◆ Developed in Microsoft Excel
- ◆ Includes use of Visual Basic macros
 - Model Navigation
 - Printing
 - Iterative Equation Solver Function
- ◆ Multiple Workbooks
- ◆ Install Wizard using InstallShield forthcoming

CSEPT Architecture

CSEPT Entry Module
Jurisdiction Selection

CSEPT Entry Module
(Major Inputs and Outputs)

Expense
Database
Module

Typical
Switch and
Transport
Arrangement
Module

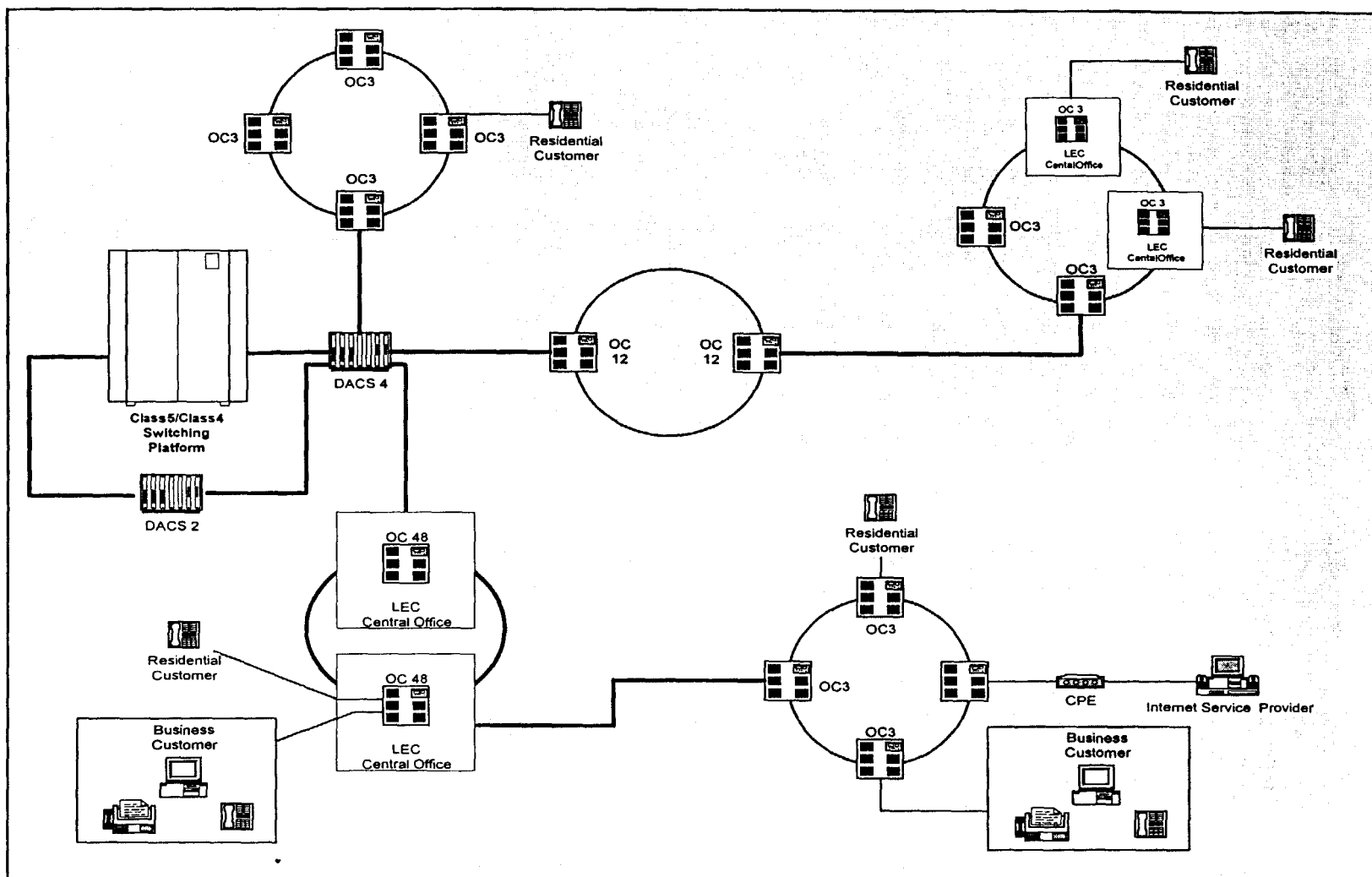
Traffic
Module

Account
Control
Function
Module

ACIF

Investment
Database
Module

Typical CLEC Architecture





Presentation Agenda

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CSEPT Architecture

CSEPT Entry Module
Jurisdiction Selection

CSEPT Entry Module
(Major Inputs and Outputs)

Investment
Database
Module

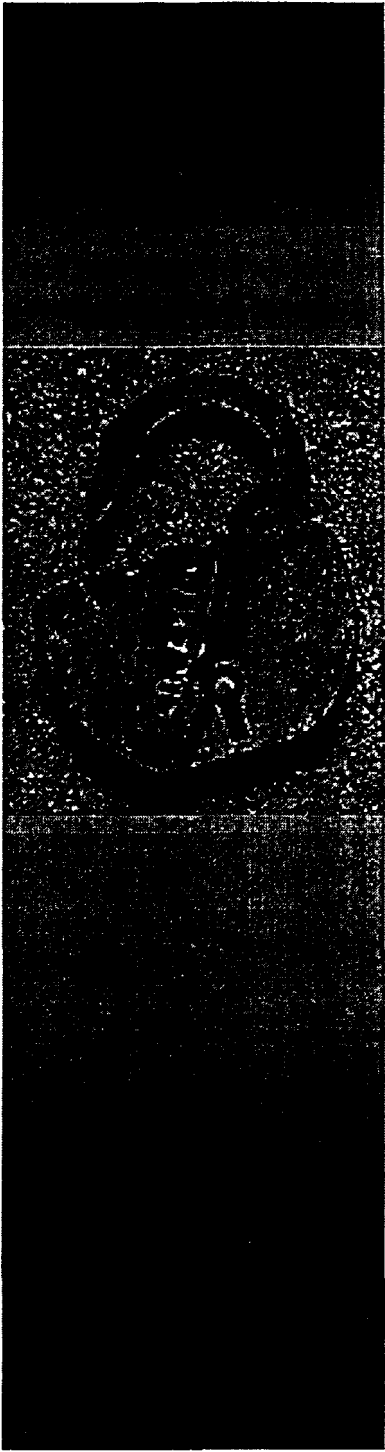
Expense
Database
Module

Typical
Switch and
Transport
Arrangement
Module

Traffic
Module

Annual
Change
Factor
Formulation
Module

ACF



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